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BEFORE THE ARIZONA CORPORATION COMMISSION

DOCKETED

JUN 09 2000

CARL J. KUNASEK
CHAIRMANJIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER

DOCKETED BY

BT

IN THE MATTER OF THE APPLICATIONS OF
VERDE LEE WATER COMPANY, INC. FOR A
PERMANENT RATE INCREASE AND FOR
FINANCING APPROVALDOCKET NOS. W-02096A-99-0721
W-02096A-99-0709DECISION NO. 62623ORDEROpen Meeting
June 6 and 7, 2000
Phoenix, Arizona**BY THE COMMISSION:**

On December 15, 1999, Verde Lee Water Company, Inc. ("Verde Lee" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for a permanent rate increase. On December 9, 1999, Verde Lee filed an application for approval of financing. Additionally, an application for approval of a Cross-Connection Tariff was filed by the Company on January 27, 2000.

On February 15, 2000, Staff filed with Docket Control an original and one copy of four complaint letters written to the Commission and one petition signed by 85 verified¹ Verde Lee customers in opposition to the proposed rate increase.

On March 14, 2000, the Commission's Utilities Division ("Staff") filed a Motion to Consolidate ("Motion") the above-captioned matters. The Motion was granted on March 20, 2000.

On March 22, 2000, Staff filed its Staff Report, recommending the financing application and an alternate rate schedule be approved without a hearing.

DISCUSSIONIntroduction

Verde Lee is a small water utility company located in Verde Lee Acres Subdivision,

¹ Petition included 133 signatures which Staff cross-referenced with Applicant's customer list, resulting in signatures of 85 verified customers.

1 approximately 6 miles southeast of Clifton, Arizona, in Greenlee County. During the test year end-
2 December 31, 1998, Verde Lee provided water to a total of 185 customers.

3 The Addendum to the Staff Report filed on April 5, 2000 indicates that the Company is in
4 compliance with the Arizona Department of Environmental Quality ("ADEQ") and is providing
5 water with no maximum contaminant violations. The Company also meets the quality standards of
6 the Safe Drinking Water Act. Additionally, the Staff Report states that since the Company is not
7 located within any Active Management Area as defined by the Arizona Department of Water
8 Resources ("ADWR"), it is not subject to monitoring and reporting requirements or water
9 conservation limits.

10 Verde Lee provided notice of the requested rate increase to its customers on August 18, 1999,
11 by U.S. Mail. Notice of the financing application was sent to Verde Lee's customers by U.S. Mail on
12 December 1, 1999. Notice of the amended financing application was sent to the Company's
13 customers on March 3, 2000, by U.S. Mail.

14 Based on Test Year ("TY") results, as adjusted by Staff, Verde Lee's current rates an
15 charges produced revenues of \$79,299. Verde Lee realized an adjusted operating income of \$9,172
16 on an adjusted Original Cost Rate Base ("OCRB") of \$492,446, resulting in an adjusted rate of return
17 of 1.86 percent. In its rate application, Verde Lee proposed rates that would yield a revenue level of
18 \$119,000, which would result in operating income of \$48,750 and a rate of return of 16.35 percent on
19 its proposed OCRB of \$298,187. Staff recommended a revenue level of \$85,721, resulting in
20 operating income of \$14,243 and a 2.89 percent rate of return on Staff's adjusted OCRB of \$492,446.

21 Verde Lee has also filed a financing application that has been consolidated with the rate
22 application. The Company proposes to borrow \$50,950 from BankOne. The loan would provide the
23 funds to construct a new storage tank, sandblast and paint an existing storage tank, purchase one
24 standby booster pump, construct a perimeter fence, and install three well meters.

25 Rate Base

26 The Company's application utilized a rate base of \$298,187. Staff increased the Company's
27 rate base after adjustments. Adjustments were made to Plant in Service which resulted in a net
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1 decrease of \$11,148. Staff decreased Accumulated Depreciation by \$205,374 to reflect the difference
2 in the depreciation rate used by the Company versus the Commission approved rate. As a result of
3 the adjustments, Staff increased the Company's rate base by \$194,260, from \$298,187 to \$492,446.

4 Staff's adjustments to rate base are reasonable and should be adopted.

5 Revenue and Operating Expenses

6 Staff determined that the bill counts submitted with the application conform to the TY water
7 sales and no adjustments were necessary to operating revenues. However, Staff made several
8 adjustments to the Company's operating expenses which resulted in an overall decrease of \$1,273.

9 Staff's adjustments to operating expenses are reasonable and should be adopted.

10 Revenue Requirement and Rate Design

11 In its rate application, the Company proposed rates that would yield a revenue level of
12 \$119,000, which would result in operating income of \$48,750 for a 16.35 percent rate of return on its
13 proposed OCRB of \$298,187. Staff recommended rates and charges that would give the Company a
14 revenue level of \$85,721, resulting in an operating income of \$14,243 and a rate of return of 2.89
15 percent on Staff's adjusted OCRB of \$492,446.

16 The Company currently charges residential 3/4 inch meter customers a monthly minimum
17 usage charge of \$15.00 which does not include any gallonage. The commodity rate is \$2.10 per
18 thousand gallons of usage. In its application, the Company is proposing a minimum charge of \$20.00
19 for its 3/4 inch meter customers, which also would include no gallonage. Additionally, the Company
20 proposes to charge \$3.40 per thousand gallons as the commodity charge. The Company's proposed
21 rates would increase the typical residential bill, with a median usage of 7,500 gallons, by \$14.75,
22 from \$30.75 to \$45.50, for an increase of 47.97 percent. Also, under the Company's proposed rates,
23 the average 3/4 inch meter bill would increase by 50.10 percent, from \$36.31 to \$54.51.

24 Staff recommended a minimum charge of \$16.20 for residential 3/4 inch meter customers,
25 with no water usage included, and the proposed commodity rate be set at \$2.25 per thousand gallons
26 usage. The rates proposed by Staff would increase the median 3/4 inch meter bill by 7.56 percent,
27 from \$30.75 to \$33.08, and the average 3/4 inch meter bill by 7.50 percent, from \$36.31 to \$39.03.
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1 Staff disagrees with the Company's decision not to apply for Service Line and Meter
2 Installation Charges and other Service Charges. Staff concurs with Consumer Servi.
3 recommendation to implement a proper level of service charges to allow Verde Lee to recover its
4 expenses for the services rendered and to comply with the Arizona Administrative Code, specifically
5 A.A.C. R14-2-403.B and D, R14-2-408.C and F, and R14-2-409.C.,D.,F. and G.

6 We find that Staff's proposed Monthly Usage Charges and Refundable Meter and Service
7 Line Installation Charges are reasonable and should be adopted. While we concur that Staff's
8 proposed rates will provide sufficient cash flow for the Applicant and will minimize rate shock, we
9 find Staff's proposed rate of return to be on the low end of reasonableness. Based on all the
10 circumstances at this time, we find that a rate of return of 6.02 percent would be reasonable.

11 The rates and charges approved herein include a minimum charge of \$20.00 for residential 3/4
12 inch meter customers, with no water included, and a commodity charge of \$2.70 per thousand gallons
13 usage. These proposed rates would increase the median 3/4 inch meter bill by 30.89 percent, from
14 \$30.75 to \$40.25, and the average 3/4 inch meter bill by 30.54 percent, from \$36.31 to \$47.40.

15 Other Issues

16 Staff also recommends that the Company comply with issues pertaining to the metering of the
17 system. In its Engineering Report, Staff states that "unaccounted for water" could not be calculated
18 because none of the three wells were metered. Engineering Staff recommended that a meter be
19 installed on each well concurrent with the Company's proposed improvements in its financing
20 application. Staff recommends the installation of the meters should be completed within 18 months
21 of the effective date of this Decision. Staff's recommendation is reasonable and should be adopted.

22 Financing Request

23 Verde Lee requested a loan through the Water Infrastructure Finance Authority of Arizona
24 ("WIFA"), but the Verde Lee projects were not within the funding range. Subsequently, Verde Lee
25 filed an application for approval of long-term debt in the amount of \$20,000 from Mr. Forrest
26 Wilkerson, President of the Company.

27 The Company amended its financing application on March 3, 2000, to reflect additional
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capital improvements. The proposed improvements will cost \$69,950, according to Staff. The funds will come from a bank loan and internal funds that were generated from the sale of a non-producing well, along with the property upon which the well is situated. The assets were sold for \$19,000.

The amended application requested approval of \$50,950 in long-term debt, to be obtained from BankOne. The proposed loan requires payments of \$868.37 per month, including 10.85 percent interest for a period of 84 months.

Staff examined the effects of the proposed debt on the Times Interest Earned Ratio (TIER) and Debt Service Coverage (DSC) ratio of Verde Lee for the proposed BankOne financing. These ratios measure the number of times earnings will cover interest payments (TIER) and the number of times cash flow will cover principal and interest payments (DSC). A TIER of 1.50 and a DSC of 1.25 are usually preferred. Staff's projected ratios of 2.70 and 3.30², respectively, indicate that Verde Lee would not likely experience any difficulty in servicing the proposed BankOne financing.

The debt proposed would enable Verde Lee to purchase and install a water storage tank and booster pump, as well as install three meter wells. Staff Engineering has reviewed the projects and agrees that the improvements are appropriate and the cost estimates are reasonable. Approval of the financing would result in a capital structure of 85 percent equity and 15 percent debt for Verde Lee.

Verde Lee provided notice of the original financing request to its customers on December 1, 1999, by U.S. Mail. Notice of the amended financing request was sent to its customers by U.S. Mail on March 3, 2000. The Commission has not received any comments from Verde Lee's customers regarding the financing application.

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes and orders that:

FINDINGS OF FACT

1. Applicant is an Arizona corporation engaged in the business of providing water utility service to the public in a portion of Greenlee County, six miles southeast of Clifton, Arizona.

² Using the rates and charges recommended and approved herein would result in Verde Lee having an increased TIER and DSC ratio.

1 2. Applicant's present rates and charges for water service were approved in Decision N'
2 52835 (February 22, 1982).

3 3. On December 9, 1999, Verde Lee filed with the Commission an application for
4 approval of long-term financing. On December 15, 1999, Verde Lee filed an application for a
5 permanent rate increase.

6 4. The Company sent notice of its rate application to its customers on August 18, 1999,
7 by U.S. Mail. Additionally, the Company sent notice of its application for approval of financing and
8 an amended application on December 1, 1999, and March 3, 2000, respectively, by U.S. Mail.

9 5. On February 15, 2000, Staff filed an original and one copy of four written complaints
10 and one petition received from Verde Lee's customers regarding the Company's proposed rate
11 increase.

12 6. Staff conducted an investigation of Applicant's proposed rates and charges, and in the
13 Staff Report filed on March 22, 2000, recommended that the financing application and an alternative
14 rate schedule be approved without a hearing.

15 7. During the test year, the average number of customers the Company served was 178.

16 8. The average and median monthly usage by 3/4 inch customers is 10,149 and 7,500
17 gallons, respectively.

18 9. Verde Lee's proposed rates that would yield a revenue level of \$119,000, which would
19 generate an operating income of \$48,750, and a rate of return of 16.35 percent on its proposed OCRB
20 of \$298,187.

21 10. Staff recommended a revenue level of \$85,721, which would result in an operating
22 income of \$14,243 and a rate of return of 2.89 percent on its adjusted OCRB of \$492,446.

23 11. The revenue level approved herein of \$104,003 would result in an operating income of
24 \$29,650, and a rate of return of 6.02 percent on Staff's adjusted OCRB of \$492,446.

25 12. Verde Lee's present and proposed rates and charges, as well as Staff's rates and
26 charges and those approved herein are as follows:
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	<u>Present Rates</u>	<u>Proposed Rates Company</u>	<u>Staff</u>	<u>Approved</u>	
3	<u>Monthly Usage Charges</u>				
	5/8" x 3/4" Meter	\$15.00	\$20.00	\$10.80	\$15.00
4	3/4" Meter	15.00	20.00	16.20	20.00
	1" Meter	20.00	25.00	27.00	30.00
5	1 1/2" Meter	27.00	35.00	54.00	60.00
	2" Meter	40.00	40.00	86.40	100.00
6	3" Meter	N/A	N/A	172.80	172.80
	4" Meter	N/A	N/A	270.00	270.00
7	6" Meter	N/A	N/A	540.00	540.00
8	Excess of Minimum- per 1,000 gallons:	\$2.10	\$3.40	\$2.25	\$2.70
9	<u>Service Line and Meter Installation Charges</u>				
10	5/8" x 3/4" Meter	N/A	N/A	\$375.00	\$375.00
	3/4" Meter	N/A	N/A	435.00	435.00
11	1" Meter	N/A	N/A	510.00	510.00
	1 1/2" Meter	N/A	N/A	740.00	740.00
12	2" Meter -Turbine	N/A	N/A	1,300.00	1,300.00
	2" Meter- Compound	N/A	N/A	1,930.00	1,930.00
13	3" Meter- Turbine	N/A	N/A	1,855.00	1,855.00
	3" Meter- Compound	N/A	N/A	2,570.00	2,570.00
14	4" Meter- Turbine	N/A	N/A	2,870.00	2,870.00
	4" Meter- Compound	N/A	N/A	3,675.00	3,675.00
15	6" Meter- Turbine	N/A	N/A	5,375.00	5,375.00
	6" Meter- Compound	N/A	N/A	6,970.00	6,970.00
16					
17	<u>Service Charges</u>				
18	Establishment	N/A	N/A	\$25.00	\$25.00
	Establishment (After Hours)	N/A	N/A	50.00	50.00
19	Reconnection (Delinquent)	5.00	10.00	30.00	30.00
	Reconnection(Delinquent- After Hours)	N/A	N/A	35.00	35.00
20	Deposit	N/A	N/A	*	*
	Deposit Interest	N/A	N/A	*	*
21	Re-Establishment (Within 12 Months)	N/A	N/A	**	**
	NSF Check	N/A	N/A	20.00	20.00
22	Meter Test (If Correct)	N/A	N/A	30.00	30.00
	Meter Re-Read (If Correct)	N/A	N/A	15.00	15.00

* Per Commission Rules (R14-2-403B)

** Months off system times the minimum (R14-2-403.D).

12. Pursuant to the Staff Report, Verde Lee's fair value rate base ("FVRB") is determined to be \$492,446 which is the same as its OCRB.

13. Verde Lee's current rates and charges produced revenues of \$79,299 in the TY and

1 resulted in an adjusted operating income of \$9,172.

2 14. Staff's adjustments to rate base, revenues, and expenses, as reflected in the S.
3 Report, are reasonable.

4 15. Adjustments have been made herein to Staff's proposed monthly usage charges and
5 commodity usage charges, resulting in a higher rate of return than recommended in the Staff Report.

6 16. The rates proposed by the Company would increase the median 3/4 inch meter bill by
7 47.97 percent, from \$30.75 to \$45.50, and the average 3/4 inch meter bill by 50.10 percent, from
8 \$36.31 to \$54.51.

9 17. The rates proposed by Staff would increase the median 3/4 inch meter bill by 7.56
10 percent, from \$30.75 to \$33.08, and the average 3/4 inch meter bill by 7.50 percent, from \$36.31 to
11 \$39.03.

12 18. The rates proposed and approved herein would increase the median 3/4 inch meter bill
13 by 30.89 percent, from \$30.75 to \$40.25, and the average 3/4 inch meter bill by 30.54 percent, from
14 \$36.31 to \$47.40.

15 19. Staff recommended its proposed rates and charges be granted without a hearing.

16 20. Staff recommended that the Company be required to implement the Service Charges
17 indicated above.

18 21. Staff recommended approval of the Cross-Connection and Backflow Tariff filed with
19 the Company's applications.

20 22. Staff recommended approval of \$50,950 of long-term debt at an interest rate of 10.85
21 percent, payable over 84 months.

22 23. Staff's analysis of Verde Lee's TIER of 2.70 and DSC of 3.30 indicated adequate net
23 income to cover interest and principal payments if Staff's recommended debt level is authorized.³

24 24. Staff recommended that Applicant request Commission approval for any further sale
25 of assets by Verde Lee.

26 25. Staff recommended the Company be required to complete all construction activity,
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28 ³ A TIER and DSC of 1.50 and 1.25, respectively, are generally preferred as the minimum ratios
necessary to service utility debt.

1 including installation of three well meters, within 18 months of the effective date of this Decision.

2 26. Staff recommended that Verde Lee collect from its customers their proportionate share
3 of any Privilege, Sales, or Use Tax, in addition to collection of the Company's regular rates and
4 charges as provided for in A.A.C. R14-2-409.D.

5 27. Staff has indicated that the Company is current on all of its property taxes.

6 28. Verde Lee is not located within any Active Management Area and is not subject to
7 conservation and monitoring requirements.

8 29. Verde Lee is in compliance with the rules and regulations of ADEQ and is delivering
9 water that meets the quality standards of the Safe Drinking Water Act.

10 **CONCLUSIONS OF LAW**

11 1. Verde Lee is a public service corporation within the meaning of Article XV of the
12 Arizona Corporation Commission and A.R.S. Sections 40-250, 40-251, 40-301 and 40-302.

13 2. The Commission has jurisdiction over Verde Lee and of the subject matter of the
14 applications.

15 3. Notice of the applications was provided in the manner prescribed by law.

16 4. The rates and charges authorized hereafter are just and reasonable and should be
17 approved without a hearing.

18 5. The financing approved herein is for lawful purposes within Verde Lee's corporate
19 powers, is compatible with the public interest, with sound financial practices, and the proper
20 performance by Verde Lee of service as a public service corporation, and will not impair Verde Lee's
21 ability to perform that service.

22 6. The financing approved herein is for the purposes stated in the application and is
23 reasonably necessary for those purposes, and such purposes are not, wholly or in part, reasonably
24 chargeable to operating expenses or to income.

25 **ORDER**

26 IT IS THEREFORE ORDERED that Verde Lee Water Company, Inc., shall file on or before
27 June 30, 2000, the following schedule of rates and charges:
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MONTHLY USAGE CHARGES

5/8" x 3/4" Meter	\$15.00
3/4" Meter	20.00
1" Meter	30.00
1 1/2" Meter	60.00
2" Meter	100.00
3" Meter	172.80
4" Meter	270.00
6" Meter	540.00

COMMODITY RATES (per 1,000 gallons)

All Meter Sizes:	\$2.70
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SERVICE LINE AND METERINSTALLATION CHARGES

(Refundable Pursuant to A.A.C. R14-2-405(B))

5/8" x 3/4" Meter	\$375.00
3/4" Meter	435.00
1" Meter	510.00
1 1/2" Meter	740.00
2" Meter - Turbine	1,300.00
2" Meter - Compound	1,930.00
3" Meter - Turbine	1,855.00
3" Meter - Compound	2,570.00
4" Meter - Turbine	2,870.00
4" Meter- Compound	3,675.00
6" Meter- Turbine	5,375.00
6" Meter - Compound	6,970.00

SERVICE CHARGES

Establishment	\$25.00
Establishment (After Hours)	50.00
Reconnection (Delinquent)	30.00
Reconnection (Delinquent- After Hours)	35.00
Deposit	*
Deposit Interest	*
Re-Establishment (Within 12 Months)	**
NSF Check	20.00
Meter Test (If Correct)	30.00
Meter Re-Read (If Correct)	15.00

* Per Commission Rules R14-2-403.B

** Months off system times the minimum (R14-2-403.D)

IT IS FURTHER ORDERED the aforementioned rates shall become effective as of July 1, 2000.

IT IS FURTHER ORDERED that Verde Lee Water Company shall notify its customers of the rates and charges authorized herein and the effective date of same by means of an insert in its next

1 regular scheduled billing.

2 IT IS FURTHER ORDERED that Verde Lee Water Company shall file a copy of the notice
3 of rates and charges approved herein and sent to its customers with the Director of the Utilities
4 Division within 30 days from the effective date of this Decision.

5 IT IS FURTHER ORDERED that Verde Lee Water Company is hereby authorized to borrow
6 \$50,950 from BankOne for a term up to 84 months with an annual interest rate not to exceed the
7 prime rate at the time of the loan plus one percent.

8 IT IS FURTHER ORDERED that Verde Lee Water Company is hereby authorized to engage
9 in any transactions and to execute any documents necessary to effectuate the authorization granted
10 hereinabove.

11 IT IS FURTHER ORDERED that such authority is expressly contingent upon Verde Lee
12 Water Company's use of the proceeds for the purposes set forth in its application.

13 IT IS FURTHER ORDERED that Verde Lee Water Company shall file copies of all executed
14 financing documents setting forth the terms of the financing, within 30 days of obtaining such
15 financing.

16 IT IS FURTHER ORDERED that Verde Lee Water Company shall install a meter on each of
17 its three wells within 18 months from the effective date of this Decision.

18 IT IS FURTHER ORDERED that Verde Lee Water Company shall complete all construction
19 activity, including the installation of three well meters, within 18 months of the effective date of this
20 Decision.

21 IT IS FURTHER ORDERED that Verde Lee Water Company's Cross-Connection and
22 Backflow Tariff is hereby approved.

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1 IT IS FURTHER ORDERED that Verde Lee Water Company shall comply with the
2 recommendations set forth in Findings of Fact Nos. 21, 24 and 26.

3 IT IS FURTHER ORDERED that Verde Lee Water Company shall organize its books and
4 records in accordance with the NARUC uniform system of accounts.

5 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

6 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

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9 CHAIRMAN

COMMISSIONER

COMMISSIONER

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12 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
13 Secretary of the Arizona Corporation Commission, have
14 hereunto set my hand and caused the official seal of the
15 Commission to be affixed at the Capitol, in the City of Phoenix,
16 this 9TH day of June, 2000.

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18 BRIAN C. McNEIL
19 EXECUTIVE SECRETARY

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DISSENT _____
AG:bbs

1 SERVICE LIST FOR:

VERDE LEE WATER COMPANY

2 DOCKET NO.

W-02096A-99-0709 and W-02096A-99-0721

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4 Forrest G. Wilkerson
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